

Members

Rep. John Frenz, Co-Chairperson
Sen. Luke Kenley, Co-Chairperson
Rep. Eric Turner
Sen. Lindel Hume
Sandra Bickel
Joe Breedlove
Daniel Clark
Amy Corsaro
Deborah Driskell
Les Fox
Phil Hoy
S. Michael Hudson
Mike Karickhoff
Patrick Kiely
Joseph Loftus
Joseph Minnis
J. Daniel Philpott
Bill Roach
Jason Shelley
Don Strietelmeier
John Taylor
Thomas Taylor
Ernie Wiggins
Louis Zickler



PROPERTY TAX REPLACEMENT STUDY COMMISSION

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MEETING MINUTES¹

Meeting Date: September 15, 2004
Meeting Time: 1:00 P.M.
Meeting Place: State House, 200 W. Washington St., Room
Meeting City: Indianapolis, Indiana
Meeting Number: 6

Members Present: Rep. John Frenz, Co-Chairperson; Sen. Luke Kenley, Co-Chairperson; Rep. Eric Turner; Sandra Bickel; Daniel Clark; Deborah Driskell; Phil Hoy; S. Michael Hudson; Mike Karickhoff; Joseph Loftus; Joseph Minnis; J. Daniel Philpott; Jason Shelley; Don Strietelmeier; Thomas Taylor; Ernie Wiggins; Louis Zickler.

Members Absent: Sen. Lindel Hume; Joe Breedlove; Amy Corsaro; Les Fox; Patrick Kiely; Bill Roach; John Taylor.

I. Call to Order

Co-Chairperson, Senator Luke Kenley, called the meeting to order at 1:12 P.M.

II. Discussion of Survey Results for the Commission's Recommendations

Senator Kenley opened discussion of the members' survey results (Exhibit 1). He explained that the Legislative Services Agency prepared the summary of the responses received from members. Senator Kenley requested permission from the members to distribute the individual responses to the rest of the Commission and the public. There was no objection, and he requested that the individual surveys be distributed.

¹ Exhibits and other materials referenced in these minutes can be inspected and copied in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for copies may be mailed to the Legislative Information Center, Legislative Services Agency, 200 West Washington Street, Indianapolis, IN 46204-2789. A fee of \$0.15 per page and mailing costs will be charged for copies. These minutes are also available on the Internet at the General Assembly homepage. The URL address of the General Assembly homepage is <http://www.ai.org/legislative/>. No fee is charged for viewing, downloading, or printing minutes from the Internet.

Senator Kenley then made reference to the proposals in the survey receiving at least nine votes, and he said that he felt these proposals deserved to be included in the Commission's final report. He then opened the floor for discussion of these three proposals.

Ms. Deborah Driskell commented on the "Cost of Government Report" proposal. She noted that there is already data gathered and analyzed that compares Indiana with the rest of the states, and she would share this information with the rest of the Commission.

Mr. Thomas Taylor said that he also favored requiring a report on the cost of government, although he did not respond to this item on the survey.

Mr. Don Strietelmeier expressed concern that gathering the data would itself be very costly. He also commented that any cost of government report would be an overlap of resources if not done in conjunction with the information provided by the Farm Bureau.

Mr. Taylor then commented that the "Change of the administration of the Assessment system" was also an important proposal. He said that further training should be required for assessors.

Ms. Driskell discussed SEA 1-2004 requiring level-two certification for assessors. She said that this legislation should be given time to remedy the lack of training before any further action be taken.

Senator Kenley then asked if there was any discussion regarding the "Circuit Breaker" proposal.

Mr. Daniel Philpott said that he liked the Florida circuit breaker program as a model for Indiana. He discussed Florida's use of a 2% maximum and annual reappraisals as attractive features of the system.

Mr. Michael Hudson pointed out that 33 states currently have circuit breaker programs. He also said that Indiana is very close to the national average for percentage of people over 65 living in the state. He said that since Indiana seemed not to be abnormal by this statistic, he felt that some sort of circuit breaker program should be part of the property tax system.

Co-Chairperson, Representative John Frenz, explained that different areas of the state with different demographics would be affected differently by a circuit breaker program. Representative Frenz commented that the circuit breaker could be based on a percentage of assessment or based on a hard dollar amount. He explained that budgeting would be affected by the decision to go with either of those approaches.

Senator Kenley said that another approach was to make the circuit breaker program a local option.

Representative James Buck was recognized to speak. Representative Buck explained that if a circuit breaker used a percentage that was higher than the cost of inflation for a given year, there would be a shift in the property tax burden to those homeowners not involved in the circuit breaker program.

Senator Kenley then opened the floor for discussion on any of the proposals not receiving nine yes votes.

The Commission discussed the following issues:

- problems with proposing a farmstead exemption;
- details of what should be included in a cost of government report;
 - savings from government efficiencies;
 - school spending analysis;
 - break down spending by every unit or level of government;
 - ability to extend the Farm Bureau's analysis to other units of government;
 - need for continuity of data;
- more detail on actual property tax statements sent to residents;
 - inclusions of what % of property tax bills go to each unit of government;
 - recent legislation that created a pilot program to do the above.

III. Discussion of Commission Members' Recommendations

Senator Kenley passed on agenda items 2 and 3 as distributed, and moved onto a discussion of members' recommendations. He asked that each member make a few comments regarding their response to the survey of proposals.

Mr. Jason Shelley began the discussion with his view that the system should stay the same. He explained that his responses were meant to reflect the views of small business owners throughout the state. Mr. Shelley said that the great majority of small business people saw no need to change the current property tax system.

Mr. Philpott was recognized to explain his responses. He stated that he thought the current property tax system should remain unchanged with the exception of creating a circuit breaker program. The recommendation he submitted was to complete the exercise of what would be needed to replace 50% of property taxes. His scenario included a Sales Tax on most services excluding medical services and raising the Sales Tax rate to 7.5%. He added that property taxes were more attractive than a Sales Tax increase because of the stability and ease of distribution.

Mr. Mike Karickhoff was the next member to discuss his recommendations. He said the current system was not broken and should not be changed, but he did the assignment which was submitted to the Commission. He expressed concerns that any increase in Sales Tax to replace property tax would cause a problem in equitably distributing the revenues back to local government. He added that local government needed the flexibility to determine how to generate additional funds.

Mayor Ernie Wiggins was recognized to discuss his recommendations. He reiterated the point that the current system was not broken and reassessment did what it was suppose to do. Mayor Wiggins said stability was the key factor in his decision to recommend no change. He asked that the recent changes to the property tax system be given a chance to take full effect.

Ms. Driskell was next to discuss her recommendations. She said that local autonomy was the best option and the Commission should look at other tools that locals could use to offset property taxes. For example she noted that local option income taxes should be collected and distributed locally. Ms. Driskell also recommended no change be implemented at this time. She reiterated the point also made by other members that she had not received that many complaints about the current property tax system.

Mr. Thomas Taylor was next to testify. He said Indiana's current tax balance was good and recommended no change be implemented. Mr. Thomas recommended that if any change be made it should be an increase in Sales Tax and Sales Tax on selected services to replace a percentage of property tax. He explained that Sales Tax is paid by out-of-state people as well as Hoosiers, and that an increase in the Sales Tax burden would not affect people as much as an increase in the Income Tax. Mr. Taylor also recommended a circuit breaker and that his scenario could replace up to 61% of property taxes or leave some funds to establish a rainy day fund.

Mr. Phil Hoy was next to discuss his recommendations. His scenario included increasing the Income Tax to 4.9% and increasing the Sales Tax to 7% to replace 50% of property tax. Mr. Hoy expressed concern over the shift in the burden to renters over homeowners.

Mr. Hudson was next to testify. He recommended first that the current system be given a chance to realize its full potential. Mr. Hudson said that if 50% of property tax was to be replaced he would recommend raising Income Tax to 4% and Sales Tax to 7%. He said that he would also recommend taxing all services at 7%. Mr. Hudson said he recommended all services be taxed because if one area received an exemption then every area would be clamoring for an exemption.

Ms. Sandra Bickel was recognized to discuss her recommendations. She recommended no change to the current system. Ms. Bickel added that if the Income Tax were to be raised it should be on a graduated system. She also explained that if any property tax was to be replaced that there should be a restructuring of local government as well.

Mr. Joseph Minnis was next to discuss his recommendations. He recommended no change to the current system but he did the assignment as submitted to the Commission. Mr. Minnis explained that the current system brought in enough funds, and that the distribution of the tax burden was more fair now than before the changes by the General Assembly.

Mr. Louis Zickler was next to testify. He recommended that any change involve only an increase to broad-based taxes such as Income or Sales Tax. Mr. Zickler explained that an increase in corporate tax would not raise the money needed to replace 50% of property tax unless the rate was very high. He noted that any recommendation look at replacing entire levies versus across the broad cuts.

Mr. Daniel Clark discussed his recommendations. He did not submit any recommendations since he felt that with unfunded mandates and the current state deficit, that this would not be the best time to make changes. He stated that educational funding has a constitutional basis and most of the school general fund does not come

from property taxes.

Mr. Joseph Loftus was next to testify. He recommended that an elimination of the child welfare levy would provide significant relief to locals. Mr. Loftus otherwise felt no changes should be made to the current system.

Mr. Strietelmeier was next to speak about his recommendations. He recommended a 1% increase in the Sales Tax, and an increase in Income Tax on a graduated basis. Mr. Strietelmeier expressed his concern that the Commission should make some sort of recommendation to replace some percentage of property taxes. He stated that if no change was recommended it would leave the Legislature with no possible alternatives to review.

Senator Kenley stated that they would try to draft a document for the Commission to discuss at the next meeting to incorporate the proposals. He noted that he had previously recommended that 100% of the school general fund be removed from the property tax system. Senator Kenley also expressed concern that the concept of a balance tax system between property, income, and sales is not accurate any more. He said that the process to restructure the system should continue until the right balance is obtained.

Representative Frenz explained that since the state already distributes 68% of the school general fund, that the remaining portion could be distributed by the state as well. He noted that any additional revenue replacement for property taxes needed to be distributed in an equitable manner.

Representative Eric Turner explained that he felt any recommendation should involve improving efficiency at the local government level.

IV. Other Business

Senator Kenley told the Commission that he would draft some recommendations and have them prepared for the next meeting.

V. Next Meeting Date and Adjournment

The Commission announced that the next meeting would be Tuesday, October 12, 2004, at 1 P.M.

Senator Kenley adjourned the meeting at 3:10 P.M.